ANNUAL REPORT for the year ended December 31st, 1966

THE ALGOMA STEEL CORPORATION, LIMITED

1966

THE ALGOMA STEEL CORPORATION, LIMITED

Steelworks Division, Sault Ste. Marie, Ontario

STATISTICAL SUPPLEMENT TO 1966 ANNUAL REPORT

COMPOSITION OF CONSOLIDATED SALES

	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %
Steel products	91	89	88	85	81	78	75	74	70	66
Pig iron	6	8	8	11	12	13	14	15	17	21
Sinter	1	1	1	1	3	4	5	6	8	7
Coke, coal chemicals, and sundry	2	2	3	3	4	5	6	5	5	6
	100	100	100	100	100	100	100	100	100	100

The predominance of steel products in sales increased further in 1966 and sales of pig iron declined.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %
Eastern Canada	15	14	13	12	13	10	10	6	6	8
Ontario	59	59	58	53	51	52	54	58	59	57
Western Canada	11	12	14	13	12	11	9	10	11	14
United States	15	15	15	22	23	21	20	26	19	18
Off-shore					1	6	7		5	3
	100	100	100	100	100	100	100	100	100	100

Ontario continued to be the principal market place for Algoma's products.

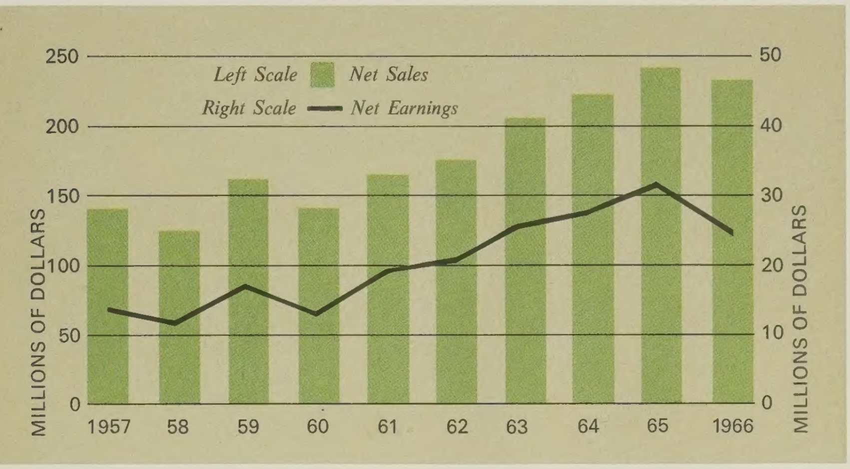
STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

	1966 %	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %
Flat rolled	48	51	51	49	44	46	49	50	42	39
Heavy structurals including wide flange beams	21	19	21	20	21	13	10	10	12	19
Rails and fastenings	7	5	7	7	6	6	9	15	25	23
Bars and light structurals	6	5	5	5	6	6	7	6	9	8
Semi-finished including tube rounds	18	20	16	19	23	29	25	19	12	11
	100	100	100	100	100	100	100	100	100	100

A fall off in shipments of pipe plate in 1966 accounted for the decline in the proportion of flat rolled products.

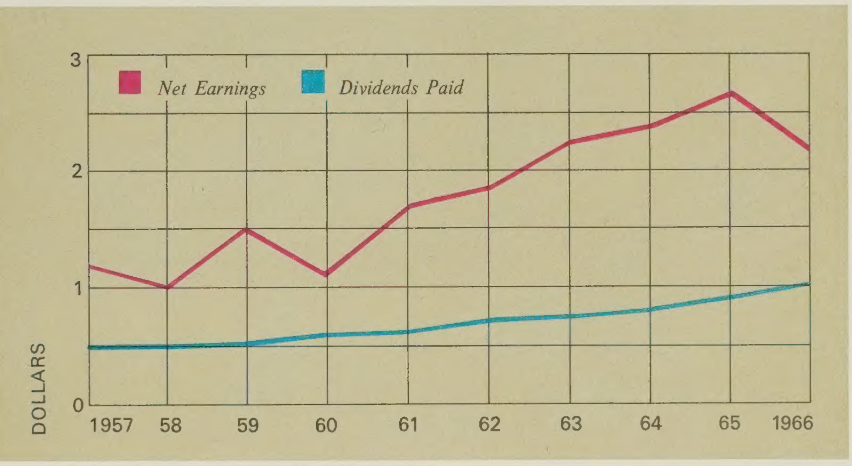
NET SALES AND NET EARNINGS

Lower sales and earnings in 1966 broke the trend of gains for five consecutive years.



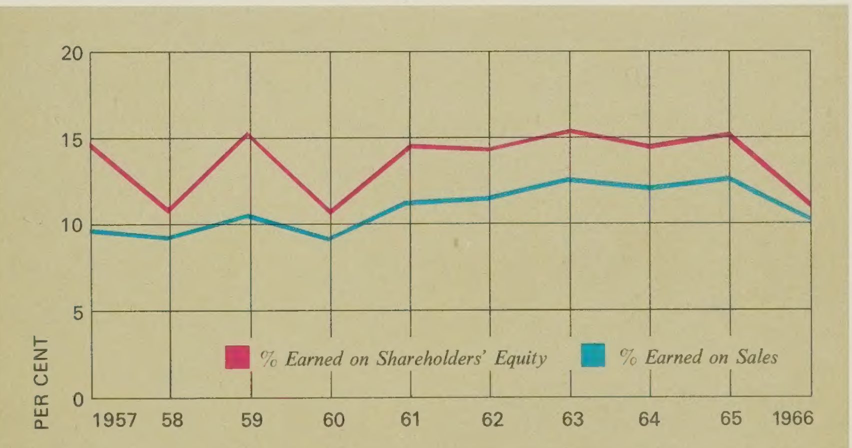
NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Dividends of $1 per share represented 47 per cent of earnings in 1966 and total dividends have amounted to $79.1 million, or 38 per cent of earnings, since first paid in 1957.



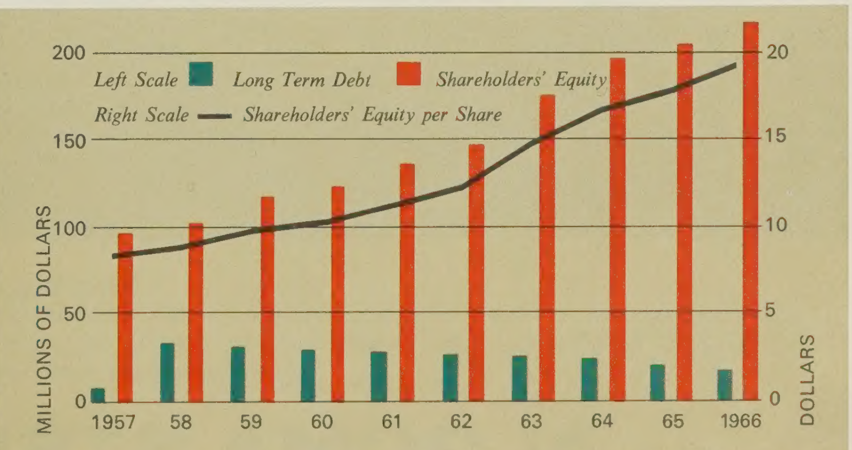
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

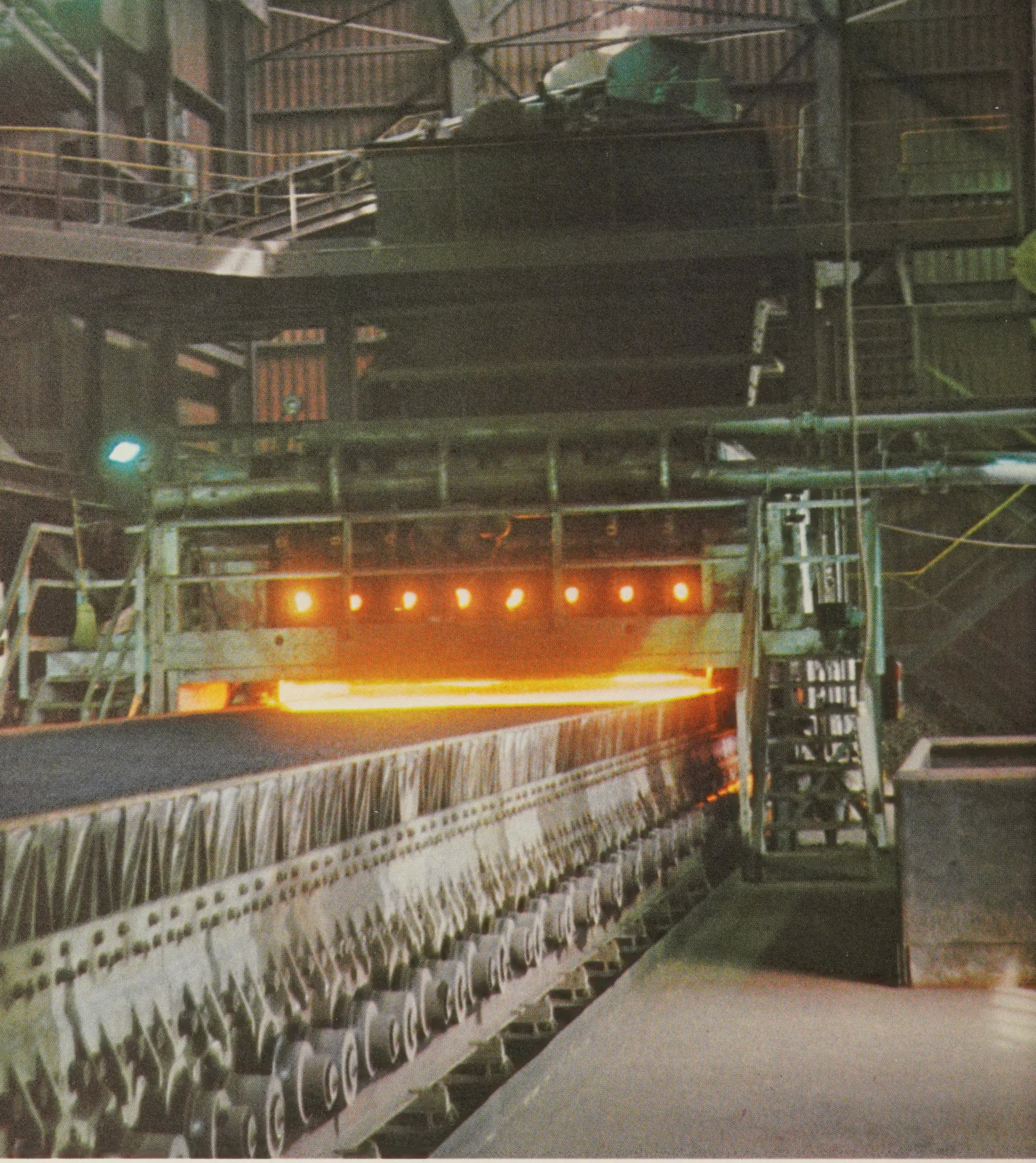
Earnings on shareholders' equity and on sales, which have been relatively level over the past five years, declined to 11.7 per cent and 10.5 per cent respectively in 1966.



LONG TERM DEBT AND SHAREHOLDERS' EQUITY

Equity per share has risen from $8.60 in 1957 to $18.88 in 1966; long term debt was 8 per cent of invested capital at the end of 1966.





No. 7 Sintering Machine, Algoma Ore Division, Wawa, Ontario

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Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.

DIRECTORS

John B. Barber *Vice President - Finance, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
J. D. Barrington *President and Managing Director, McIntyre Porcupine Mines Limited*	Toronto, Ontario
*Wilfred R. Binch, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors*	Toronto, Ontario
*Sir Philip Dunn, Bart. *Financier and company director*	London, England
*David S. Holbrook *Chairman and President, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
Gilbert W. Humphrey *Chairman, The Hanna Mining Company*	Cleveland, Ohio, U.S.A.
Douglas Joyce *Vice President - Operations, The Algoma Steel Corporation, Limited*	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E. *Chairman, Canada Steamship Lines, Limited*	Montreal, Quebec
W. Earle McLaughlin *Chairman and President, The Royal Bank of Canada*	Montreal, Quebec
MacKenzie McMurray *President, Dominion Bridge Company Limited* *Elected February 2nd, 1966*	Montreal, Quebec
*M. C. G. Meighen, O.B.E. *President, Canadian General Investments Limited*	Toronto, Ontario
Dr. Egon Overbeck *President, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
Ulrich Petersen *Member, Board of Management, Mannesmann, A.G.*	Dusseldorf, West Germany
*Dr. G. Wagner *President, Mannesmann International Corporation, Limited*	New York, N.Y., U.S.A.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar *Retired Senator*	Winnipeg, Manitoba
Henry S. Hamilton, Q.C. *Barrister*	Sault Ste. Marie, Ontario
Wilbert H. Howard, C.B.E., Q.C. *Deceased July 14th, 1966*	Montreal, Quebec
E. Gordon McMillan, Q.C. *Partner, McMillan, Binch, Berry, Dunn, Corrigan & Howland, Barristers and Solicitors*	Toronto, Ontario
Dr. Wilhelm Zangen *Honorary Chairman, Supervisory Board, Mannesmann, A.G.*	Dusseldorf, West Germany

OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
C. Carson Weeks	Vice President - Sales
Donald A. Machum	Vice President - Personnel and Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

HIGHLIGHTS OF 1966

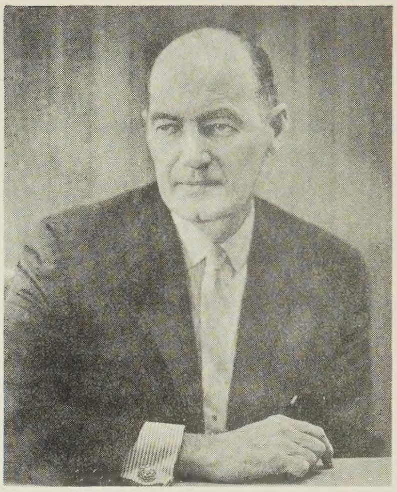
(with comparative figures for 1965)

	1966	1965	INCREASE OR (DECREASE)
	(dollars and tons in thousands)		
Net sales	*$235,479*	*$241,910*	*$ (6,431)*
Net earnings — total	*$ 24,796*	*$ 30,804*	*$ (6,008)*
— per share	*$ 2.14*	*$ 2.66*	*$ (.52)*
— per cent of income	*10.4%*	*12.6%*	*(2.2%)*
— per cent of average shareholders' equity	*11.7%*	*15.3%*	*(3.6%)*
Cost of products sold as per cent of net sales	*74.1%*	*70.0%*	*4.1%*
Dividends paid — total	*$ 11,606*	*$ 10,436*	*$ 1,170*
— per share	*$ 1.00*	*$ .90*	*$ .10*
Capital and mine development expenditures	*$ 33,451*	*$ 25,196*	*$ 8,255*
Depreciation and amortization	*$ 16,559*	*$ 15,116*	*$ 1,443*
Long term debt at year end	*$ 19,000*	*$ 23,845*	*$ (4,845)*
Production — iron	*N.T. 2,241*	*N.T. 2,289*	*N.T. (48)*
— raw steel	*N.T. 2,347*	*N.T. 2,486*	*N.T. (139)*
Shipments — steel products	*N.T. 1,715*	*N.T. 1,768*	*N.T. (53)*
Approximate number of shareholders at year end	*13,284*	*13,912*	*(628)*

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Thursday, April 20th, 1967 at 3:30 p.m. Eastern Standard Time. A formal notice of the meeting and a proxy will be mailed separately.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



Chairman and President
David S. Holbrook

After five years of steady year to year growth, steel production in Canada was slightly lower in 1966 than the previous year. Up to the middle of December Algoma's output was in line with national experience, but a strike necessitated closure of the Steelworks on December 19th. It remained shut down until January 15th, however operations were not back to a normal level for about ten days.

Sharply increased employment costs, with deferral of compensating price increases by force of Federal Government influence, lower volume in the last half of the year and shut down costs during the strike, were largely responsible for a decline of 2.7 per cent in sales and 19.5 per cent in earnings from 1965.

Work on the major expansion program, already delayed by late deliveries of equipment and shortages of skilled construction tradesmen, was further retarded by the strike and the Continuous Casting Plant will not start production until mid-1967. Although the same factors other than the strike continue to cause construction problems, it is hoped to be able to complete the program in 1970.

We can not stress too greatly the combined impact on cash flow of rapidly increasing employment costs, high income tax levels, the Special Refundable 5% Corporations Tax, discontinuance of accelerated depreciation and reduction of normal depreciation. These, together with increasingly severe international competition and high interest rates, present serious obstacles to expansion and modernization of the primary iron and steel industry.

If the Canadian steel industry is to be able to satisfy the domestic steel requirements envisaged in the next decade, it faces the major problem of procuring almost as much capital in the first half of the 1970's as will have been required during the entire 1960's. It is strongly recommended that the Federal Government take further

steps to restrict and control non-productive expenditures, to restore accelerated and full normal depreciation and to remove the Special Refundable 5% Corporations Tax, in the case of industries such as the primary iron and steel industry. Stimulation of expansion of such industries is of vital importance to the Canadian economy.

The Federal Government is also urged to ensure that its representatives at the GATT tariff negotiations recognize the intense international competition that has developed in iron and steel products and the need for effective steps to detect and prevent dumping and unfair trade practices which have become increasingly complex and ingenious.

It is essential for employees at all levels to realize that employment costs can not continue to rise at the present rapid pace unless they are accompanied by increased output resulting from individual effort and application. Higher output can not be achieved by capital investment alone. Failure to recognize this will result in deterioration of the Canadian steel industry's position in the market place which has become highly competitive and international in scope.

Charts and tables of statistics are contained in a supplement inserted in the Report and although an attempt has been made to incorporate in the Report and supplement all significant information with respect to the Corporation's affairs, questions from and visits by shareholders would be welcomed.

The death on July 14th of Wilbert H. Howard, C.B.E., Q.C., LL.D., D.C.L., is recorded with regret. Mr. Howard had been a highly respected director since 1956, and an honorary director since 1963.

The Board of Directors met regularly in 1966 and there were ten meetings — four in Montreal, four in Toronto and two in Sault Ste. Marie.

We can not place values on our human assets — executives, managers and employees, as we do on physical assets, but their worth and contribution to the Corporation's well-being is recognized and fully appreciated.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 1st, 1967.

REVIEW OF 1966 OPERATIONS

Financial

Sales at $235.5 million were $6.4 million, or 2.7 per cent, lower than the record level in 1965 and net earnings declined $6 million, or 19.5 per cent, to $24.8 million from 1965 record earnings of $30.8 million. Earnings per share were $2.14 compared to $2.66 in 1965 and cash flow per share declined to $4.13 from $4.80 in 1965.

Operating costs and depreciation increased substantially and rearranging, administrative and selling expenses were higher. Increased dividend and short term investment income raised total investment income.

The principal factors responsible for the increase in operating costs were substantially higher employment costs under revised agreements with unions described under "Employee and Public Relations", lower volume in the last half of the year, major repairs which had been deferred during five years of almost uninterrupted capacity operations, and shut down costs during the strike.

Depreciation on plant and equipment, other than mining equipment, was again accrued on a straight-line basis at rates expected to write off the cost of the assets over their estimated lives; costs of mining equipment and mine development were again amortized at rates calculated to write them off over estimated ore reserves. The total accrual increased $1.4 million, of which approximately $1 million was on uncompleted plant and equipment which did not produce any earnings.

Moving and rearranging expense, which amounted to $800 thousand, was incurred moving the 30″ Cold Strip Mill to the new 80″ Cold Strip Mill building and relocating buildings, equipment and railroad tracks in connection with the expansion program.

Higher administrative and selling expense resulted from costs in connection with the Steel Pavilion being constructed jointly by the Canadian primary iron and steel producers for the Canadian Universal and International Exhibition (Expo '67) at Montreal, increased research activity, subdivision of the Corporation's shares, employment of additional sales personnel and adjustments in compensation.

There were no price increases on steel products in spite of substantially higher costs and, although earnings compared to 1965 improved until the middle of the year, they declined for the entire year to 10.4 per cent of income and 10.9 per cent of average invested capital, the lowest level since 1960.

Dividends paid amounted to $1.00 per share, an increase of 10 cents per share over 1965; total dividends were $11.6 million and Canadian shareholders qualified for deduction of 15 per cent depletion allowance for income tax purposes.

Cash and short term marketable investments declined $4.9 million during the year to $14.7 million. Accounts receivable were lower as a result of the decline in sales volume, and inventories were higher because of increased stocks of raw materials and pig iron. Working capital at the year end was $56.7 million, after reserving $10 million for construction and expansion, and the ratio of current assets to current liabilities 2.92 to 1.

The Special Refundable 5% Corporations Tax, applicable from May 1, 1966 to October 31, 1967, amounted to $1.6 million and contributed to the reduction in cash and short term marketable investments. This tax is to be refunded when prescribed by the Federal Government, over a period from eighteen to thirty-six months after payment.

A deferred charge of $6.9 million, set up in 1966, reflected the increase in past service pension liability of $13.5 million (less income tax reductions), resulting from revisions in pension agreements. It is planned to fund the total past service pension liability of $18.4 million and to

amortize the deferred charge over twenty-three years.

Long term debt was reduced $2.2 million by the purchase and cancellation of $1.1 million of series A debentures and repayment of $1.1 million on the loan secured by series B debentures. Series A debentures held at the end of the year, which may be applied in satisfaction of future sinking fund requirements, amounted to $2 million. The balance of $2.6 million on the loan secured by series B debentures was transferred to current liabilities.

The following tabulation gives details of the source and application of funds in 1966 with comparative figures for 1965:

	1966	1965
FUNDS WERE PROVIDED BY	(millions of dollars)	
Net earnings	$24.8	$30.8
Charges to earnings not requiring cash outlay:		
Depreciation and amortization	16.5	15.1
Income tax applicable to future years	6.5	9.1
Investments reserved for expansion at end of previous year	15.0	—
Other (net)	.2	.6
Total	$63.0	$55.6
FUNDS WERE APPLIED TO		
Plant and equipment additions	$32.1	$23.7
Mine development	1.4	1.5
	33.5	25.2
Purchase of series A debentures	1.1	1.9
Repayment of long term loan	1.1	1.2
Loan transferred to current liabilities	2.6	—
Payment of dividends	11.6	10.4
Investments reserved for expansion	10.0	15.0
Loans secured by marketable investments	1.5	—
Special Refundable 5% Corporations Tax	1.6	—
Total	$63.0	$53.7
WORKING CAPITAL		
At end of year	$56.7	$56.7

The resolution of the Board of Directors, which authorized application for subdivision of the Corporation's shares on a two for one basis, was confirmed by the shareholders at a Special General Meeting on April 21st, and Supplementary Letters Patent were issued, dated May 12th. During the year, ten thousand shares were issued under the stock option plan which raised the total issued shares to 11,606,434. The total number of shareholders decreased from 13,912 to 13,284, and the number of shareholders in Sault Ste. Marie increased almost 52 per cent, from 843 to 1,279.

Sales

Shipments of steel products amounted to 1.7 million tons and were approximately 3 per cent lower than in 1965, with the decline entirely in shipments into the Canadian market in the last half of the year.

Following settlement of the main labour contract, it became evident that customers had increased inventories considerably earlier in the year. This accumulation, particularly in flat rolled products, was a hedge against a possible strike in the steel industry. Reduction of these inventories continued from September to the end of the year when it appeared to be almost complete. In addition, orders were affected by a slow start up of the 1967 model automobile year.

The tonnage of steel products exported to the United States was about the same as in 1965 and, including ingots, represented 14 per cent of total shipments. Off-shore shipments were negligible.

A series of additional light weight wide flange beams was successfully introduced and high strength NiCuTen steel products were marketed for the first time and received good customer acceptance. NiCuTen steel was developed by Algoma and is a low carbon, low manganese, alloy content steel which has high tensile strength, good forming and welding qualities and high resistance to atmospheric corrosion.

The average realization at Sault Ste. Marie from sales of steel products was $124.55 per ton compared to $121.88 in 1965, the increase resulting from product mix. Although higher prices for steel products were justifiable in 1966, none were initiated in view of suspension on September 19th, at the request of the Federal Minister of Finance, of increases announced by a competitor.

Shipments of pig iron were largely from the Canadian Furnace Division and declined almost 20

per cent from 1965 to 276 thousand tons. Most of the decline was in the tonnage exported to the United States.

Shipments of Algoma Sinter to the United States amounted to 250 thousand gross tons, an increase of 54 thousand tons over 1965.

Orders for steel products, particularly plate, and hot and cold rolled sheet and strip, were lost because of the strike, but it is not possible to estimate the tonnage involved. As a consequence of the strike and decline in demand, the order backlog at the year end was lower than at the end of 1965.

Toward the end of the year an intensive management information system study was started having as its main objectives more rapid processing of customer orders, faster information with respect to inventories and customer order status, increased rolling yields and improved ability to give firm delivery date promises to customers and to live up to them. The study teams are manned by senior experienced employees and are guided by a consulting firm with extensive experience in this field. This study is expected to result in improved service to customers.

Operations

Production in 1966 was as follows:

		1966	1965
		(thousands of tons)	
Algoma Sinter	G.T.	1,805	1,822
Coal	N.T.	1,685	1,674
Coke	N.T.	1,410	1,447
Iron	N.T.	2,241	2,289
Raw steel	N.T.	2,347	2,486

Lower production of Algoma Sinter, coke, iron and raw steel was primarily attributable to the enforced shut down of operations at the Steelworks and Algoma Ore Divisions during the strike. Production also had to be discontinued at the Algoma Ore Division, from August 31st to September 6th, during the national rail strike.

A record proportion of total raw steel — slightly over 63 per cent, was produced in the L-D Oxygen Steel Plant.

The maximum tonnages of sized Algoma Sinter and of ore from the mine leased from Steep Rock Iron Mines Limited were used in the blast furnaces, and the combined tonnages of ores from the Corporation's mines represented an increased proportion of the total ores used. We are advised that the pellet plant being constructed by Steep Rock will be completed in July 1967 and pellets from this plant, produced from ore from the mine leased by Algoma, will raise the average grade of materials used in the blast furnaces and further integrate iron ore mining and steelmaking operations.

Research was conducted to develop new high strength steel products with good results and successful production. In addition, research continued on the development of new steel products with low alloy additions, and alloyed rails were supplied to a railroad for use at locations subject to severe traffic conditions. Tests have indicated that high quality seamless tubes can be produced from continuous cast blooms.

Algoma and other steel producers are cooperating in the purchase and rolling of continuous cast slabs into flat rolled products and information gained will be shared.

A licencing and royalty sharing agreement was entered into with the British Iron and Steel Research Association for patenting a process for the continuous casting of shaped steel sections. This was an outcome of the work done for Algoma by this Association.

An agreement was also signed with The Solids Pipeline Research and Development Association, in conjunction with twenty-four other Canadian companies, for research into methods of transporting solids by pipeline.

The Canadian Furnace Division blast furnace operated at capacity throughout the year with use of a higher proportion of prepared ores and improved operating techniques.

At the Algoma Ore Division performance of the 12′ wide sintering machine, brought into operation in February, was excellent and this machine assures additional sintering capacity when it is required. Research and industrial engineering

studies have been undertaken with the objective of controlling and improving sinter grade.

Approximately 82 per cent of the ore sintered was from the George W. MacLeod underground mine and the balance from the Sir James open pit mine; 84 per cent of the sinter produced was used in Algoma's blast furnaces. Due to the areas being mined, a higher proportion of the ore required treatment before sintering than in 1965.

Operations at Cannelton Coal Company were at about the same level as in 1965, with performance affected by mining thin seams and start-up problems on new mining equipment. Modifications were made to the equipment to overcome difficulties experienced and better mining conditions are anticipated.

Improvements, Additions and Alterations

Capital and mine development expenditures, expected at the start of the year to be about $50 million, amounted to $33.5 million. Lower expenditures resulted from delays in engineering and deliveries of equipment, shortages of skilled construction tradesmen, discontinuance of construction work at the Steelworks and Algoma Ore Divisions during the strike, and deferral of some projects.

Major projects completed at the Steelworks included:

- Relining and enlargement of one of the smaller (No. 4) blast furnaces which increased annual production capacity 100 thousand tons, equipment of this furnace for fuel injection and higher top pressure operation and increasing the capacity of the hot blast stoves
- Dismantling an old small (No. 2) blast furnace, which had not been operated since 1957, to clear site for construction of the large (No. 7) blast furnace
- Installation of a new pig iron storage yard to clear site for the second L-D Oxygen Steel Plant
- Construction of the new forge and fabricating shop building
- Purchase of two 25 ton diesel locomotives and additional steel and slag transportation equipment

Major projects underway at the Steelworks at the end of the year included:

- Construction of the battery of sixty large coke ovens and ancillary facilities
- Construction of the new building for the large blast furnace turbo blower which is expected to be in operation about mid-1967
- Installation of the Continuous Casting Plant
- Installation of the second reheating furnace for the Rail and Structural and Wide Flange Beam Mills; operation of this furnace is expected in the first quarter of 1967
- Construction of slab storage yard facilities for the new 160″ Plate Mill and the 106″ Wide Hot Strip Mill
- Construction of new buildings for diesel repair, central trades, metallurgical and research, and medical, training and employment
- Construction of a railway transfer yard to clear site for the new L-D Oxygen Steel Plant

At the Algoma Ore Division major expenditures, other than those on normal mine development, included:

- Purchase of equipment for modified underground mining of the Sir James Mine being undertaken at a comparatively low capital cost. Ore from this development and an extension to the open pit will extend the life of this mine at least four and one-half years to 1972, at an annual mining rate of 500 thousand tons
- Completion of installation of the new 12′ wide sintering machine brought into production in February and dismantling the three old 5′ wide sintering machines it replaced
- Additions and modifications to the sinter plant dust collection system to improve working conditions and reduce dust losses

There were no major expenditures at the Canadian Furnace Division.

Expenditures were made on high capacity mining equipment, a locomotive and mine cars at Cannelton Coal Company and work was started on development of a new high volatile coal mine. Coal from the new mine is of superior coking quality which will improve overall grade. The seam is up to 64″ thick and is estimated to contain 16.8 million tons of coal recoverable at a low cost. The life of this mine is estimated at 33 years at an annual mining rate of 500 thousand tons.

Capital expenditures in 1967 are planned to be $50 million and will include the projects underway at the end of the year and the following:

Installation of light oil recovery equipment and a two million gallon light oil storage tank

Installation of a phenol recovery plant

Relining and enlargement of one large (No. 6) blast furnace to increase annual iron production capacity

Replacement of shear runout and scarfer approach table sections, and installation of a bloom scarfing machine in the 44″ Blooming Mill

Building alterations and extensions for relocating the plate finishing line and for the 160″ Plate Mill and purchase of major components for this mill

Installation of additional railroad tracks in transfer yards

Relining the blast furnace at the Canadian Furnace Division

Outlook

The short term economic outlook in Canada is particularly difficult to assess at present, but it is generally expected that the economy will only expand about half as rapidly in real terms in 1967 as it did in 1966. There are indications that the five year period of rapid expansion has almost run its course and is giving away to a period of adjustment, the duration of which is impossible to forecast.

In this economic climate, the short term outlook for production and sales is uncertain. The manufacturing programs of one of the leading users of iron and steel products — the automobile industry, in both Canada and the United States are not as strong as at the same time last year, with the market for automobiles lagging behind that prevailing early in 1966. Off-shore competition is becoming severe with downward pressure on prices; operating costs are continuing to rise with increasing employment costs; and higher rail rates are adding to shipping costs. These factors will tend to narrow profit margins.

A well known firm of economists, W. A. Beckett Associates Limited of Toronto, was commissioned to make a study of expected Canadian consumption of steel in the ten years to 1975 and the following is a summary of their main conclusions:

The Canadian economy will experience accelerated economic growth in the next decade, with real gross national product gains averaging 4.8 per cent annually compared to 4.2 per cent in the last 12 years; this improved performance will be greater in the durable goods and construction sectors of the economy from which steel derives much of its demand;

The boom in capital expenditures has accentuated the steel industry's performance, however after adjusting for the high cyclical starting point, improvement is forecast in Canadian steel demand above long term growth rates in the economy. On a 1963 to 1965 average consumption base of 7.2 million tons of rolling mill products, apparent consumption is expected to rise 6.3 per cent annually, reaching 10.4 million tons by 1970, and 14.1 million tons by 1975;

Imports of rolling mill products are expected to be approximately 12½ per cent of Canadian steel demand under normal conditions;

Production for export is forecast at 8 per cent of total Canadian mill shipments;

On these premises, growth rates in domestic shipments and Canadian mill shipments are estimated at 7.1 per cent and 6.7 per cent respectively compared to 6.3 per cent in apparent consumption.

The forecast of Canadian consumption of 14.1 million tons of steel products by 1975 (equal to approximately 20 million tons of raw steel) is somewhat higher than the basis on which Algoma's present expansion program was justified.

Employee and Public Relations

Labour, pension and welfare agreements with eight union locals representing hourly rated employees at the Steelworks, Algoma Ore and Canadian Furnace Divisions expired July 31st. In September three year agreements, expiring July 31, 1969, were signed with the largest bargaining unit at the Steelworks, representing approximately 6,300 employees.

The labour agreement involves rate increases of 13 cents per hour effective August 1st, 1966, 8 cents August 1st, 1967 and 10 cents August 1st, 1968. It also includes increases on the same dates in the differential between job classes of three-tenths, five-tenths and two-tenths cents respectively, and an additional increase, effective September 1st, 1966, in the rates of senior maintenance type employees.

The pension agreement, effective September 1st, 1966, involves a maximum basic monthly pension of $200 after 40 years service, plus a supplementary pension of $135 reduced by the amount received under government plans. Employees may retire as early as age 62 on full pension and age 55 on reduced pension. There are improvements in vesting and disability provisions and a benefit for widows was added.

The Corporation's contribution under the welfare agreement is increased two and four-tenths cents per hour for additional life insurance and other benefits, and effective January 1st, 1968, one cent per hour will be contributed to a fund to provide some form of benefit for employees laid off during reduced operations.

Similar agreements were subsequently signed with union locals representing office employees at the Steelworks Division, and production and maintenance employees at the Algoma Ore and Canadian Furnace Divisions.

Prior to and during negotiations, operating performance suffered from labour unrest which was general in Canada and the United States.

In December, negotiations with the 80 member bricklayer union at the Steelworks broke down over demands which exceeded the above settlements, including double pay for weekend work. This union began a legal strike on December 17th and operations could not be continued when many of the 200 employees in the railroad brotherhoods refused to cross the picket lines. Agreement was reached with the bricklayers on January 15th, 1967.

Negotiations are continuing with the brotherhoods representing railroad trainmen and locomotive firemen and engineers.

Prior to the strike, employment had been comparatively stable, with employee turnover at a reasonable level, although some difficulties had been encountered recruiting tradesmen, reflecting the general shortage of skilled labour in Canada.

Cannelton Coal Company concluded an agreement with the United Mine Workers of America late in April, effective for 30 months from April 1st. It involves an increase of one dollar per day, with additional increases of 30 cents per day for skilled operating and maintenance employees. It also includes the addition of eight paid statutory holidays, increased shift premiums and vacation pay and improved welfare benefits.

Operations at Cannelton were also unfavourably affected by labour unrest, with illegal work stoppages for 16 operating days.

The important contribution of supervisory and staff employees was again recognized, with compensation and benefits at levels comparable to those prevailing in the industry in Canada. The contributory pension plan for these employees is being reviewed in the light of rapid changes in pension benefits under private and government plans.

Safe working practices were again emphasized and the best safety equipment available was provided. Housekeeping was maintained at a high level to assure the safest possible working conditions and a slight reduction in the accident frequency rate was achieved.

The Corporation maintained its position as a leader in the fields of education and training in the steel industry in North America. Supervisory training courses were improved, and educational plans expanded to permit employees to obtain university degrees through part time studies. Many programs in effect at the Steelworks were made available to employees at the other Divisions and employee participation in these programs was excellent. One long range result of the training plans is that most vacancies in supervisory and staff positions are being filled by promotions within the Corporation.

Support of Canadian educational, cultural and charitable institutions was continued and employees were encouraged to contribute to the well-being of their community and country.

Approximately $75 million was spent in Sault Ste. Marie, and $6.5 million in Wawa on wages, salaries, taxes, goods and services.

A review was published in October and sent to all shareholders, captioned "Iron Ore for Expansion", describing iron mining activities and leases negotiated for additional iron ore properties to support future expansion at the Steelworks.

Personnel

On March 1st, Ross H. Cutmore was appointed Comptroller, succeeding J. B. Barber who resigned from that position and retained the position of Vice President - Finance. Mr. Cutmore had been Assistant to the Vice President - Finance since August 1959.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

COMPARATIVE CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

		1966	1965
INCOME	Net sales	$235,478,828	$241,910,126
	Investments	3,555,246	2,522,217
		239,034,074	244,432,343
EXPENSES	Cost of products sold	174,549,659	169,372,015
	Rearranging plant	791,530	154,037
	Administrative and selling	5,699,529	4,790,139
	Interest on long term debt	1,162,773	1,285,208
	Depreciation and amortization	16,559,057	15,115,544
		198,762,548	190,716,943
EARNINGS BEFORE INCOME TAXES		40,271,526	53,715,400
INCOME TAXES	Current	9,021,700	13,777,000
	Deferred (Note 1)	6,454,000	9,134,000
		15,475,700	22,911,000
NET EARNINGS		$ 24,795,826	$ 30,804,400

COMPARATIVE CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Balance at beginning of year	$195,003,405	$186,734,752
Net earnings	24,795,826	30,804,400
	219,799,231	217,539,152
Dividends paid	11,606,434	10,435,747
Past service pension cost	—	12,100,000
Balance at end of year	$208,192,797	$195,003,405

See Notes to Consolidated Financial Statements on page 16

CONSOLIDATED

AS AT DECEMBE

ASSETS	1966	1965
CURRENT		
Cash	$ 2,131,762	$ 1,091,592
Marketable investments at cost which approximates market	12,576,402	18,476,640
Less – reserved (see below)	10,000,000	15,000,000
	2,576,402	3,476,640
Accounts receivable	31,567,723	38,001,053
Inventories at lower of cost or market (Note 2)	48,702,599	46,420,213
Prepaid expenses	1,131,245	1,075,972
Total current assets	86,109,731	90,065,470
REFUNDABLE 5% CORPORATION TAX	1,605,808	—
INVESTMENTS AT COST		
Marketable (market value 1966 $37,461,280 – 1965 $53,563,546)	30,082,413	30,082,605
Other	1,691,516	192,797
	31,773,929	30,275,402
MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION AND EXPANSION	10,000,000	15,000,000
FIXED ASSETS		
Property, plant and equipment at cost (Note 3)	372,845,026	342,726,042
Mine development at cost	17,335,799	16,603,220
	390,180,825	359,329,262
Accumulated depreciation, depletion and amortization	177,418,611	163,317,435
	212,762,214	196,011,827
DEFERRED CHARGE		
Unamortized past service pension cost (Note 4)	6,864,722	—
	$349,116,404	$331,352,699

Approved on behalf of the Board

D. S. HOLBROOK Director

W. R. BINCH Director

ALANCE SHEET

1966 AND 1965

LIABILITIES	1966	1965
CURRENT		
Accounts payable and accrued liabilities	$ 23,875,353	$ 24,660,151
Loan payable (Note 5)	2,600,447	—
Income and other taxes payable	2,978,345	8,703,353
Total current liabilities	29,454,145	33,363,504
LONG TERM DEBT – SECURED (Note 5)		
5¼% series A sinking fund debentures	19,000,000	20,091,000
Loan (included in current liabilities in 1966)	—	3,753,943
	19,000,000	23,844,943
PAST SERVICE PENSION LIABILITY (Note 4)	18,405,917	11,827,302
DEFERRED INCOME TAXES (Note 1)	63,158,000	56,704,000
SHAREHOLDERS' EQUITY (Note 6)		
Capital stock		
Authorized – 30,199,760 shares of no par value		
Issued – 11,606,434 shares (1965 – 11,596,434 shares)	10,905,545	10,609,545
Retained earnings	208,192,797	195,003,405
	219,098,342	205,612,950
	$349,116,404	$331,352,699

See Notes to Consolidated Financial Statements on page 16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1966

(1) INCOME TAXES Deferred income taxes of $6,454,000 in the Comparative Consolidated Earnings Statement resulted from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This amount is included in Deferred Income Taxes in the Balance Sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

(2) INVENTORIES Inventories at December 31, 1966 and 1965 are:

	1966	1965
Finished products	$ 9,029,485	$ 7,249,565
Work in process	8,555,714	9,506,214
Raw materials and supplies	31,117,400	29,664,434
	$48,702,599	$46,420,213

(3) PROPERTY, PLANT AND EQUIPMENT Estimated expenditures to be made after December 31, 1966 on the authorized expansion program amount to approximately $162 million including commitments of approximately $38 million.

(4) PENSIONS An increase of $13,500,000 in past service pension liability resulted from revisions in pension agreements effective September 1, 1966. After income tax reductions applicable to future annual payments, provision has been made in the amount of $6,924,000 and the charge related thereto reflected as a deferred charge. The deferred charge is being amortized over 23 years from September 1, 1966 which is the estimated average future service of the employees to retirement; the unamortized balance remaining at December 31, 1966 is $6,864,722. Past Service Pension Liability shown in the Balance Sheet is being funded by 23 annual payments.

(5) LONG TERM DEBT The series A debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem $1 million principal amount in each of the years 1967 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part may be redeemed at any time. At December 31, 1966 series A debentures redeemed and available to satisfy future sinking fund requirements amount to $2 million.

The Loan payable secured by series B debentures is repayable in monthly instalments contingent on sales to the lender and is to be completely repaid by December 31, 1967. Repayments discharge equal amounts of series B debentures.

(6) SHAREHOLDERS' EQUITY By Supplementary Letters Patent dated May 12, 1966 the shares were subdivided into 18,593,326 unissued and 11,606,434 issued shares without par value on the basis of two shares for each one share.

As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These financial requirements are exceeded by a substantial amount.

During 1966 options were exercised on 10,000 shares for $296,000 under the stock option plan for certain employees. At December 31, 1966 there are unexercised options on 4,000 shares at $15.10 per share terminating in 1971 and on 69,750 shares at prices of $29.60 and $29.70 per share terminating in 1974.

(7) REMUNERATION OF DIRECTORS Total remuneration of directors, including those who are executive officers, amounted to $405,000 in 1966.

(8) UNITED STATES SUBSIDIARY The assets and liabilities of the United States subsidiary are included in the financial statements at par of exchange. If these assets and liabilities had been converted to Canadian dollar equivalent there would not have been any substantial effect on the financial position.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as at December 31, 1966 and the statements of consolidated earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and retained earnings present fairly the financial position of the companies at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
January 13, 1967.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Cannelton Coal Company Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

COMPARISON OF FINANCIAL AND

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal *net tons*	Production: Algoma Sinter *gross tons*	Production: Iron *net tons*	Production: Raw steel *net tons*	Shipments of steel products *net tons*	Income $	Cost of products sold $	Rear-ranging plant $	Adminis-trative and selling $	Interest & expense on long term debt $	Depreciation and amortization $	Income taxes $	Net earnings $
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3
1959	1457	1838	1552	1372	1045	164.5	116.5	.5	3.2	1.7	10.8	14.2	17.6
1958	1275	1632	1110	962	727	124.2	89.6	1.0	2.9	1.2	9.3	8.4	11.8
1957	1249	1582	1434	1066	823	144.0	105.7	1.7	3.0	.5	7.6	11.3	14.2
1956	1191	1411	1490	1105	871	144.0	107.4		2.8	.4	6.3	11.4	15.7
1955	896	1262	1294	990	764	114.7	88.0		2.2	.6	5.8	7.7	10.4
1954	626	1107	736	566	423	71.0	56.3	.1	1.7	1.0	5.6	1.9	4.4

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of invest-ments $	Source: Long term debt $	Source: Other – net (1) $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Divi-dends $	Application: Invest-ments $	Application: Refund-able 5% tax $	Increase in working capital $
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	–
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0			6.4
1959	17.6	10.8	1.7			.9	13.8	14.0	2.1	5.8			(4.7)
1958	11.8	9.3	4.9		25.0	(4.3)	35.9		.5	5.7			4.6
1957	14.2	7.6	1.9			.2	25.8		.6	5.7			(8.2)
1956	15.7	6.3	2.9	.7		.7	9.2		.6				16.5
1955	10.4	5.8	5.5			1.0	5.8		.7				16.2
1954	4.4	5.6	1.8				7.2		.4		2.1		2.1

(1) Includes investments reserved for expansion at end of previous year.

IMITED AND SUBSIDIARIES

PERATING RESULTS 1966 - 1954

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data)

Year	Cash dividends $	Net earnings retained in business $	Cash flow from operations $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital %
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	1.15	.60	2.35	74.9	6.1	9.3	11.0	9.2
1959	5.8	11.8	31.0	1.53	.50	2.68	71.6	8.6	10.7	15.8	12.7
1958	5.7	6.1	26.3	1.02	.50	2.29	72.9	6.8	9.5	11.6	9.9
1957	5.7	8.5	23.9	1.24	.50	2.10	74.2	7.8	9.9	15.1	13.6
1956		15.7	26.3	1.38		2.31	75.4	7.9	10.9	19.2	16.9
1955		10.4	22.7	.92		1.99	77.2	6.7	9.1	15.2	13.0
1954		4.4	9.7	.39		.85	79.5	2.7	6.2	7.3	6.3

BALANCE SHEET SUMMARY (millions of dollars excepting per share data)

Dec. 31	Working capital $	Refund-able 5% tax $	Invest-ments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge $	Long term debt $	Past service pension liability $	Deferred income taxes $	Deferred earnings on advance sales $	Share-holders' equity $	Share-holders' equity per share $	Number of shares issued (000)	Number of share-holders
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537
1960	50.9		6.4		120.0	.6	32.4		21.3	.3	123.9	10.73	11542	7176
1959	44.5		6.5	14.0	104.3	.6	33.8		18.3	.3	117.5	10.19	11532	6394
1958	49.2		6.6		101.5	.7	35.9		17.0	.2	104.9	9.13	11490	4678
1957	44.6		6.6		70.7		11.4		12.1	.4	98.0	8.60	11406	3396
1956	52.8		6.7		52.8		12.0		10.2	.4	89.7	7.86	11406	2642
1955	36.3		7.4		50.6		12.6		7.3	.5	73.9	6.48	11406	2308
1954	20.1		7.4		51.1		13.3		1.8		63.5	5.57	11406	2152

Statistics on shares exclude shares owned by subsidiaries in 1956 and prior years, and are adjusted for share subdivisions in June 1957 and May 1966.

Average invested capital is the average of shareholders' equity plus long term debt less unamortized debenture expense at the beginning and end of the year.

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES	Sault Ste. Marie, Ontario Saint John, New Brunswick Montreal, Quebec Toronto, Ontario Hamilton, Ontario Windsor, Ontario Winnipeg, Manitoba Vancouver, British Columbia
PRODUCTS	Algoma Sinter Coke Coal Chemicals Pig Iron Blooms, Billets and Slabs Heavy and Light Rails Rail Fastenings Heavy Structurals Parallel Flange Beams Light Structurals Carbon Merchant Bars Reinforcing Bars Tube Rounds Grinding Balls and Rods Sheared Plate Universal Plate Hot Rolled Sheet and Strip Cold Rolled Sheet and Strip Electrical Sheet and Strip Skelp